

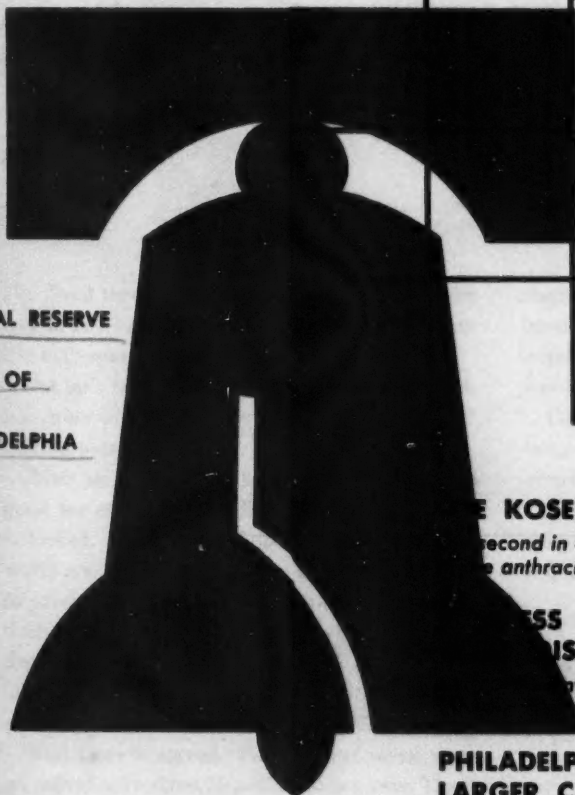
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APRIL 1956

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MONEY

# business review



FEDERAL RESERVE

BANK OF

PHILADELPHIA

## THE KOSEK LOOKS AHEAD

In the second in a series, this article describes the problems of the anthracite area during the period from 1917 to now.

## BUSINESS LOANS IN THE DISTRICT — 1955

This article presented the results of a survey of member banks, showing the profile of borrowers and the patterns of their loans.

## PHILADELPHIA MANUFACTURERS PLAN LARGER CAPITAL OUTLAYS

Capital spending plans for 1956 have been revised upward in the past six months. A rising trend of production also is forecast over much of the current year.

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*Federal Reserve Bank of Philadelphia,*

*Philadelphia 1, Pa.*

## JOE KOSEK

### LOOKS AHEAD

*Second instalment of a*

*study of the hard coal region*

*of Pennsylvania*



### The Hard Years: 1917 to Now

I've lived through the toughest times we've ever had in the hard-coal region, so the story of my life may sound discouraging.

But let's face it! In 1917 we took out 100 million tons of coal. Today we're mining only 27 million tons a year.

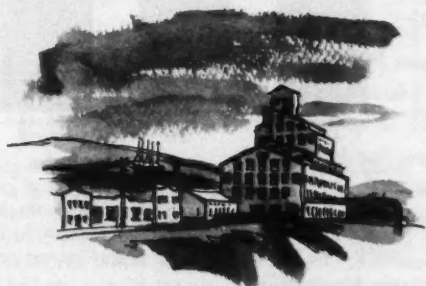
After we hit the peak in 1917, production was good for several years. But it wasn't as good as it looked. Mining had boomed during the first world war, and after the war we were geared up to produce more coal than people wanted. Production started to fall off several years before the depression. It went down in 1927, '28, '29, '30, '31, '32, and '33—each year—until it ended up at about half the amount mined in 1917.

And there it stayed. For the next seven years we mined only about 50 million tons a year. That's not counting the bootleg mines. Nobody knows just how much coal was mined by bootleggers, but there were thousands of us that dug holes,

rigged up a shaker, and peddled coal in second-hand trucks. Those days a man would do almost anything to earn a living. One of my best friends was killed when his little mine caved in.

Coal picked up when the second world war came along. But after the war it went down again, even lower than before. And that's where it is now.

**What went wrong?** A lot of people have been asking that. And you get a lot of different answers.



Some say it was all labor's fault for pushing wages up and pricing coal out of the market. Others say the coal companies were asleep while oil and gas stole the market. I don't know. Maybe there's something to both these arguments.

But when you get right down to it, the big thing that went wrong is just that *fewer people wanted hard coal*. When oil and gas came along, people decided it was a lot easier to set a thermostat than shovel coal in and ashes out. They began to think coal was old-fashioned. Maybe they shouldn't

have. Coal was just as good as ever—in fact, better. But just the same, people did feel that way—and the customer is always right.

What I'm trying to say is, there were a lot of different—and complicated—reasons why coal went into a tail-spin. It wasn't really anybody's fault.

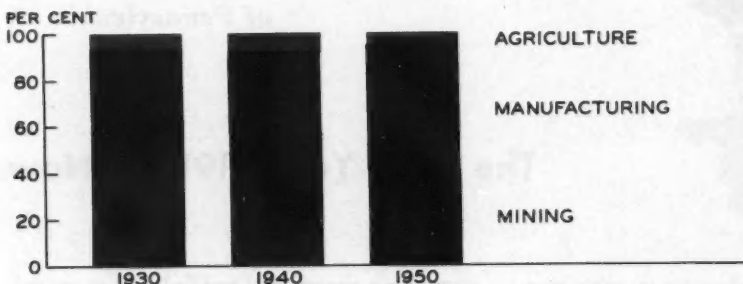
The question you're probably thinking about now is, *why did the drop in coal hit this area so hard?* The answer is *we didn't have much else*.

Most of our people have always worked in mining. We've never had much farming. The land's too hilly. But we've always had some manufacturing. In fact, while mining has been going down, manufacturing has been going up.

What we make

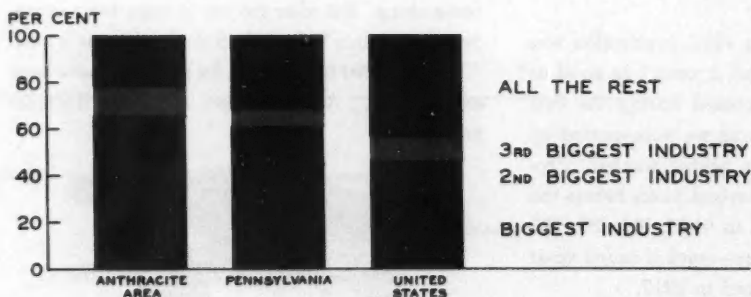
## EMPLOYMENT HAS SHIFTED —

from mining to manufacturing



## BUT DIVERSIFICATION —

is still below average (figures for 1953)



For many years, mining was the largest single industry in the anthracite area. This lack of diversification made the area vulnerable to declines in anthracite. Employment has shifted away from mining into manufacturing. But compared with Pennsylvania and the United States, industry is still less diversified. The three biggest industries (textiles and apparel, anthracite, and metals) account for almost 80 per cent of the total employed.

mostly are textiles and clothes. If it hadn't been for those industries, we'd have been in even worse trouble. They've kept many a family going by giving work to women when the men weren't working in the mines.

But the textile and clothing industries have had

some drawbacks, too. They moved into this area in the first place to hire the women at low wages. That's been one trouble—they haven't hired many men. Besides, many of the plants are small and run on a shoestring. When hard times come along a lot of them have to close up. They're always

looking for cheap labor, and they've been moving South to get it. So textiles and clothing industries have been a mixed blessing to us.

Our next biggest industry has been metals. This industry picked up during World War II. The important thing about this industry is that it hires men.

We've manufactured food products, too—bread, beer, potato chips.

We've had some manufacturing, all right, and it's been growing. But we still haven't had enough different kinds, and the right kinds, of manufacturing to make up for the drop in coal. We've had too many eggs in one basket. That's been the *cause* of our problems.

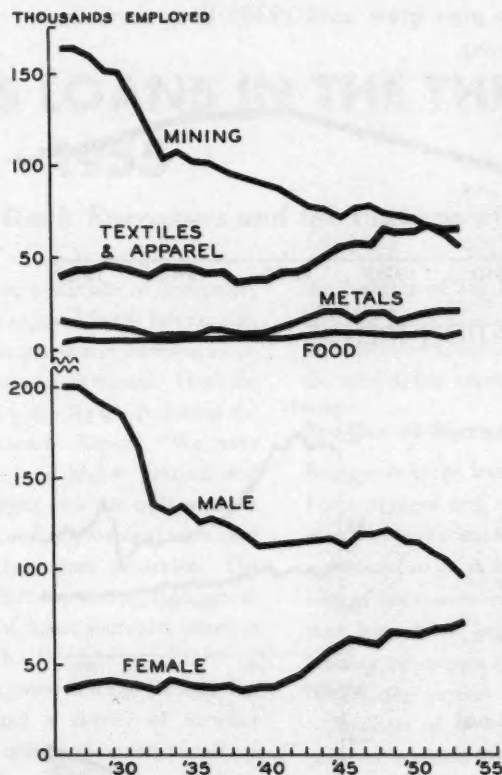
The *results* show up

## A CLOSER LOOK AT EMPLOYMENT

As employment declined in mining,

it picked up in textiles and apparel, in metals, and to some extent in foods.

But the trouble was that while employment of women increased, employment of men (except during World War II) kept going down.



During the period of decline in anthracite, employment in manufacturing was increasing. But the area did not have enough manufacturing to absorb the drop in mining. And it did not have the right kind of manufacturing. Textile and apparel factories, the most important manufacturing industries, employed mostly women.

in the people. Some of them have moved out. The population of this area grew fast when coal was booming. It was still going up, but not as fast, when coal began to run into trouble. Ever since 1930 it's actually been dropping.

And the kind of people we have here has

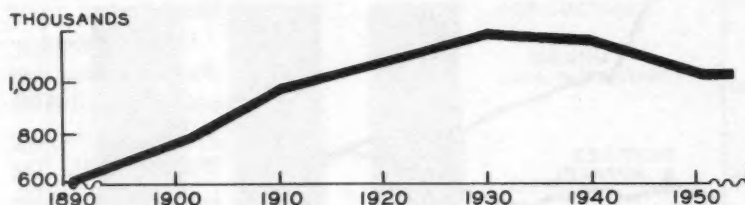
changed. We have an older population than we used to. People, like me, getting along in years don't want to move out, and we'd have trouble getting work if we did. It's the younger people who are leaving. We have more women, compared with men, than we used to. Women could

find work in the textile mills, so they were more likely to stay here. We have fewer married people. When the men couldn't find jobs they left and took their families with them.

Many of us who have stayed have often gone through some pretty lean weeks without work. Some men have gotten jobs in other areas and commute, maybe 50 miles or so, to work. It's better than being unemployed, but commuting like that isn't any fun and takes a big hunk out of your income. Some families have kept going only because the women were working. But you can imagine what it does to a man to spend his day cleaning the house, taking care of the kids, and waiting for Mom to bring

## POPULATION . . .

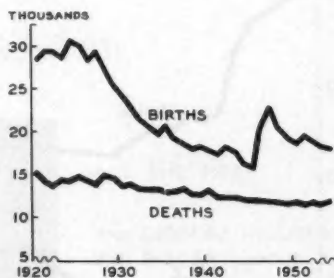
of the anthracite area grew until 1930. Ever since then it has been declining.



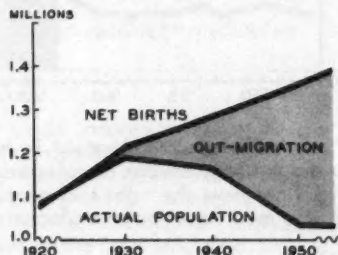
## BEHIND THE POPULATION TRENDS . . .

have been fewer births . . .

but also fewer deaths . . .



The difference between net births (cumulated) and the actual population gives an indication of migration. People have been moving out of the area since 1920. The biggest exodus was during World War II.





home the pay check. It's hard on morale.

Now, when you talk about morale, you're tackling a pretty tricky thing. You can't measure it. All you can do is get a feel of it from talking to people. Anybody will admit our morale was low for many years. After all, when you see things getting worse year after year, you don't feel too good about it. And a lot of us felt that the people

who could do something about it weren't. They were exploiting the area instead of improving it. I guess there were some pretty strong feelings.

But the attitude today is different. We don't look back any more. We're more realistic, and that makes us more optimistic. We've been doing something about our situation. We feel good about the future.

*(To be continued)*

## BUSINESS LOANS IN THE THIRD DISTRICT—1955

### *The Profiles of Bank Borrowers and the Patterns of Their Loans*

Bank lending thrives in a climate of prosperity such as the country has enjoyed in the last decade. Since World War II, the amount of business loans outstanding at banks has almost tripled. This past year, 1955, was a good year. As the President described it in his Economic Report, "We have broken through to new and higher ground, and have reached the threshold of a 400 billion dollar economy." Production and employment were near capacity and expectations were favorable. The demand for bank credit was strong throughout the year; the growth of loans averaged nearly a billion dollars a month.

It was in this atmosphere that the Federal Reserve System conducted a survey of member banks' lending to business. 155 selected banks in this district reported the nature of their business loans outstanding on October 5, 1955. We present the findings\* here to show business lending from two sides: the characteristics of the borrowers and

the features of the loans. The total number of business loans outstanding at all member banks in this district was estimated to be more than 90,000, the total dollar amount over \$1.5 billion.

#### **Profiles of Borrowers**

Borrowers come from all walks of economic life. From villages and cities, from small shops and giant corporations, a variety of businessmen find accommodation at their banks. The diversification of borrowers in this district is readily apparent from bank ledgers. As banks adjust their lending techniques to attract new groups of borrowers, the variety ever increases.

*Business of Borrower.* No one type of enterprise dominated the list and many used substantial amounts of credit. Manufacturers accounted for one-third of the dollar volume of loans outstanding. Because textile and metal goods are major products in the area, firms producing them led the manufacturing group in loan volume.

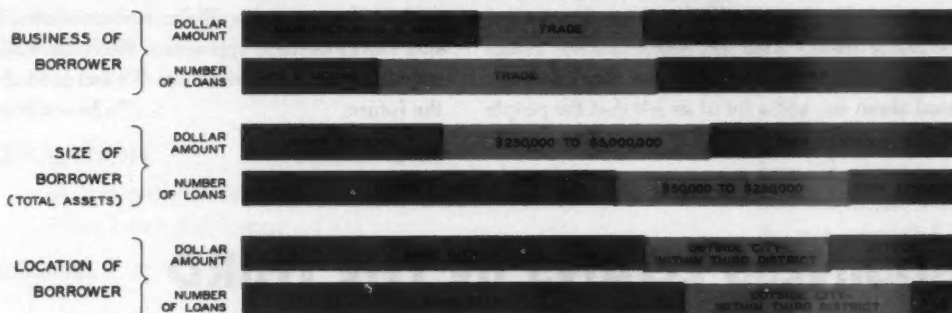
\*Data shown are preliminary and may differ slightly from figures which may be published later by the Board of Governors.

# BUSINESS BORROWING: WHO AND HOW

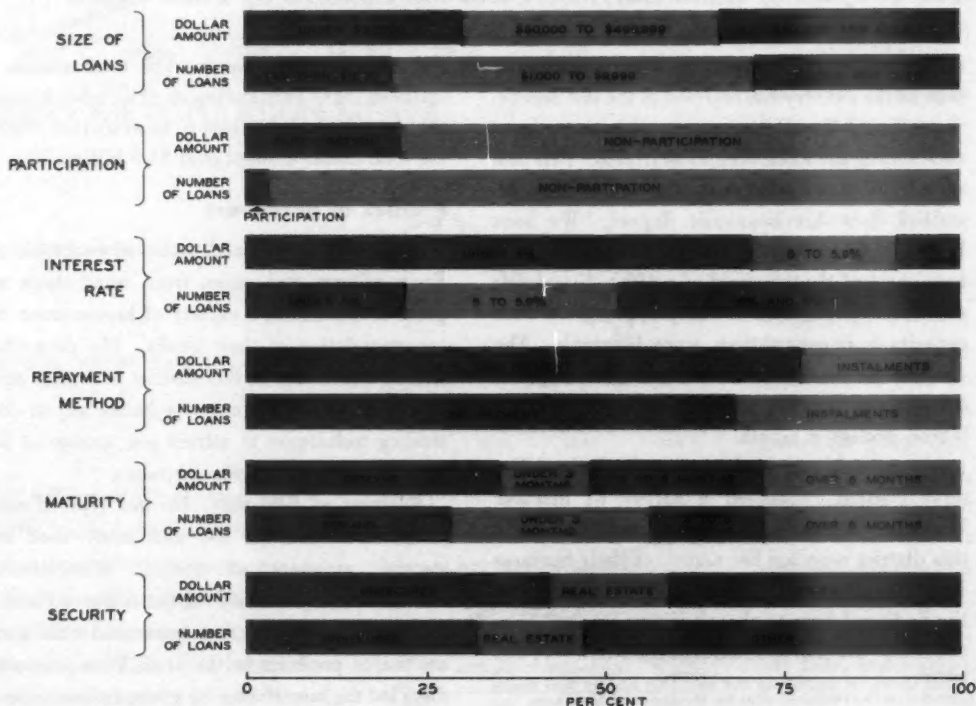
THIRD FEDERAL RESERVE DISTRICT

OCTOBER 5, 1955

## CHARACTERISTICS OF BORROWERS



## CHARACTERISTICS OF LOANS





Wholesale and retail firms borrowed over one-fifth of the total amount.

The boom in autos and housing has been responsible for a large volume of loans to sales finance and construction companies. In fact, compared with the results of a similar survey made in 1946, lending to these businesses has become more important. Services of various kinds

—hotels, amusements and the like—also have felt the touch of prosperity. Their increased operations are a by-product of new spending habits, the result of extra individual income and more leisure. This has been reflected in the loans banks make.

*Size of Borrower.* The business population is much like a pyramid with large numbers of small

#### BUSINESS OF BORROWERS

	1946*		1955†	
	Distribution by Dollar Amount	Number of Loans	Distribution by Dollar Amount	Number of Loans
Mfg. and Mining				
Food, liquor and tobacco	10%	2%	5%	3%
Textiles, apparel, leather	7	3	7	4
Metals, metal products, machinery, transportation equip.	14	4	12	5
Petroleum, coal, chemicals, rubber	8	3	3	2
All other	7	5	6	5
TOTAL	46%	17%	33%	19%
Trade				
Wholesale	16%	12%	8%	8%
Retail	14	42	15	31
TOTAL	30%	54%	23%	39%
Other				
Transportation, communication, other public utilities	9%	7%	6%	3%
Services (hotels, repair, amusements; personal, domestic, professional services)	3	10	10	17
Building and construction	2	6	6	6
Sales finance companies	7	1	10	1
All other	3	5	12	15
TOTAL	24%	29%	44%	42%
GRAND TOTAL	100%	100%	100%	100%

\*outstanding Nov. 20, 1946

†outstanding Oct. 5, 1955

Third District borrowers are engaged in a wide variety of businesses. Manufacturing and mining accounts for one-third of the dollar amount and trade one-fifth.

#### SIZE OF BORROWERS

	1946		1955	
	Distribution by Dollar Amount	Number of Loans	Distribution by Dollar Amount	Number of Loans
TOTAL ASSETS:				
Under \$50,000	13%	70%	8%	52%
\$50,000 to \$250,000	17	22	20	33
\$250,000 to \$750,000	11	4	16	9
\$750,000 to \$5 million	20	3	21	4
Over \$5 million	39	1	35	2
GRAND TOTAL	100%	100%	100%	100%

Most businesses borrowing are small, but large businesses account for most of the dollar amount outstanding.

enterprises at the bottom and a few giants on top. The borrowing structure follows closely. The survey revealed that over 50 per cent of the number of loans outstanding were made to companies with total assets under \$50,000. The loans to large companies, though few, were big enough to account for the lion's share of the volume.

Since the 1946 survey, the extreme categories have diminished in importance. The smallest and largest borrowers account for smaller parts of the total while the medium group (with assets of \$50,000 to \$750,000) has become more significant.

*Location of Borrower.* Bank lending is essentially a local operation. The great majority of loans are made to borrowers in the same county. But the loan requirements of a specific company

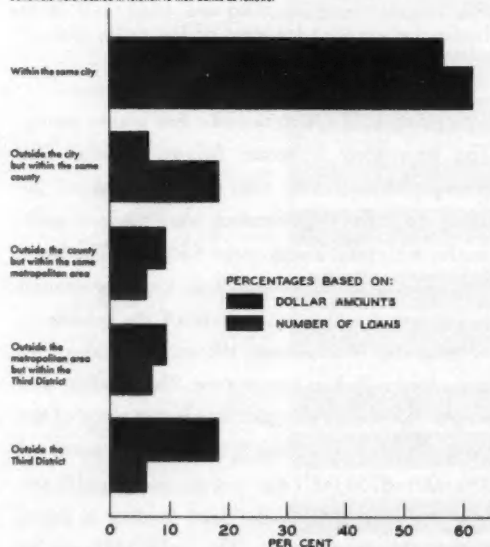
may sometimes be too large for any one bank to handle, or the local demand for loans may not be sufficient to employ all of a bank's lending capacity, so both may seek satisfaction in distant places. Of the total loan volume, 18 per cent was made to concerns outside the district and consisted, for the most part, of large loans.

### Loan Patterns

Characteristics of the borrower and the loan are interrelated, for the features of the contract are determined in large measure by the needs of the borrower. The requirements and policies of the bank play an important part, too, so loan characteristics often are a compromise determined by negotiation. In a sense, no one loan is like any other loan. Yet, since many of the loans are

### LOCATION OF BORROWER

Borrowers were located in relation to their banks as follows:

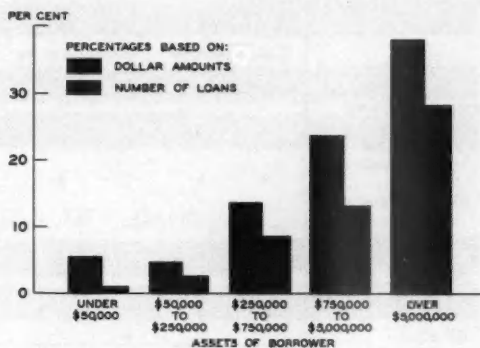


The typical borrower finds accommodation close to home. As the distance increases so does the size of the loan.

framed within a common economic background, they tend to fall into patterns.

**Size of Loans.** Small firms usually ask for small loans, and large firms need large loans. But the small loans are so small that, in aggregate, they do not account for much of the total dollar volume. About seventy per cent of the num-

### PARTICIPATIONS



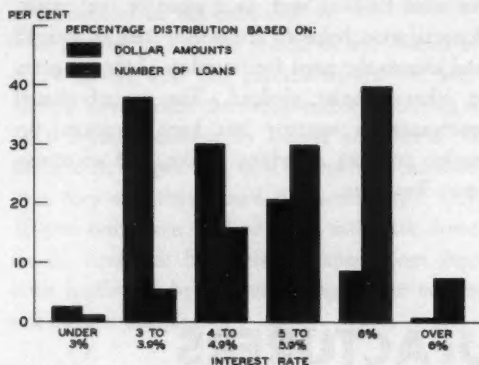
Loans in participation are likely to be made to larger borrowers whose requirements exceed the lending capacity of a single bank.

ber of loans was in amounts under \$10,000; but these loans made up less than 10 per cent of the dollar volume, while the relatively few loans of a million dollars or more each represented 17 per cent of the total dollar amount.

When the needs of one borrower are too large for a single bank to accommodate, a *participation* agreement is often worked out. A group of banks divides up the loan to be made, each furnishing a share of the required funds. Loans in participation made up one-fifth of the total dollar volume but only 3 per cent of the number of loans outstanding. The dollar figure consisted mainly of a few very large loans made by large banks.

**Interest Rates.** October 1955 was a period of

## INTEREST RATES



The majority of loans bear interest rates between 3 and 6 per cent per annum. The lower rates appear to apply to the larger loans.

relatively high interest rates. The majority of rates (and these were effective, not nominal, rates) was between 3 per cent and 6 per cent. The lower rates applied to the larger loans. The most common rate, gauged by dollar volume, was 3 to 4 per cent—by number of loans, 6 per cent.

**Repayment Method.** More than two-thirds of all loans were single-payment loans. Loans to be repaid within a month or at the option of the bank were considered demand loans, and classified, therefore, as single payment. Banks were more apt to make single-payment loans to large borrowers since the asset size and income potential of bigger borrowers lessen the need for the added security of amortization.

**Maturity.** In spite of the continued development of term lending, the average loan was still of short maturity. The largest single category was payable on demand, or within one month, and 79 per cent of the dollar volume was extended for periods of less than a year.

Comparison with the 1946 survey suggests that excepting demand loans, the trend is away from

## MATURITIES

	1946		1955	
	Distribution by Dollar Amount	Number of Loans	Distribution by Dollar Amount	Number of Loans
Demand .....	20%	22%	35%	28%
Less than 90 days .....	21	41	13	28
90 days to 6 months .....	30	20	24	16
6 months to 9 months .....	4	1	4	3
9 months to 1 year .....	5	4	3	3
1 to 2 years .....	2	3	3	8
2 to 3 years .....	1	2	2	3
3 to 4 years .....	1	1	1	3
4 to 5 years .....	2	1	4	2
5 to 10 years .....	12	4	9	5
Over 10 years .....	2	1	2	1
GRAND TOTAL .....	100%	100%	100%	100%

Short maturities are still the rule with a strong preference for demand loans.

the use of the very long and the very short maturity. A relatively smaller dollar volume was extended for under a year or over five years, while the middle maturities have become more popular.

**Security.** Today's banker accepts a wide variety of security or, indeed, may ask for none at all, believing that true safety depends more on ability, integrity and capacity to earn.

## SECURITY

	1946*		1955*	
	Distribution by Dollar Amount	Number of Loans	Distribution by Dollar Amount	Number of Loans
Unsecured loans .....	57%	39%	42%	32%
Secured Loans:				
Plant and other real estate .....	11	15	17	15
Endorsement .....	7	11	7	17
Bonds and stocks .....	6	7	6	5
Life insurance & savings accounts .....	2	5	2	5
Chattel mortgage and equipment .....	2	8	10	12
Assignment of claims, etc. ....	1	1	6	3
All other .....	14	14	10	11
GRAND TOTAL .....	100%	100%	100%	100%

\*Data not strictly comparable

More loans were secured in 1955 than in 1946. The use of mortgages on real estate or equipment has gained wider acceptance.

Unsecured loans made up 42 per cent of the dollar amount and 32 per cent of the number of all loans outstanding. Although made to all sizes of borrower, such loans tend to be more readily available to large companies that can offer the added protection of size.

Changes in the features of the loan contract itself also have influenced security requirements.

Longer maturities often require a more permanent asset backing such as a plant or real estate. Amortization helps to reduce the risk of default and lessens the need for liquidity of the property or other security pledged. The use of chattel mortgages as security has been increased by banks' growing activities in the field of equipment financing.

## **PHILADELPHIA MANUFACTURERS PLAN LARGER CAPITAL OUTLAYS**

### *A Re-check of 1956 Spending Plans*

A remarkable degree of optimism continues to prevail in most sectors of the economy. An area that seems to reveal particular strength is the proposed capital expenditures of business firms in 1956. Nationally and locally, spending programs for new plant and equipment have been revised upward since last fall—in some cases very substantially.

Manufacturers in the Philadelphia metropolitan area are among those who have taken another look at their capital spending plans and have raised their sights for the calendar year 1956. Moreover, as many of these producers see it now, the trend of manufacturing activity also may continue upward over much of the year. This was the consensus developed in a re-check of local firms which, in our September survey of capital spending programs, accounted for about half of the total dollar outlay contemplated this year.

### **Capital spending plans are higher now**

Six months ago manufacturers in this eight-county area told us they expected to spend \$288 million on new construction and equipment during 1956. This compared with a total outlay of \$307 million actually made in 1955, or a decline of about 6 per cent. The results of our sample re-check made in March tell quite a different story. On the basis of these returns, it appears likely that capital spending this year may exceed the 1955 outlay by approximately 15 per cent. Initial estimates of a coming year's capital outlays frequently are on the conservative side, because there seems to be a tendency to understate the increases and overstate the declines. However, the current year's indicated change in the direction of spending, and by such a large percentage, is something of a new experience. It is particularly noteworthy since it seems to reflect an even higher degree of confidence than was

felt while 1955 records were being made in many other sectors of the economy.

A further look at the results of our March re-check shows that the manufacturers we interviewed have raised their September estimates of 1956 dollar spending by almost one-fourth. Of this group, 35 per cent now expect to spend more than they said they would six months ago. Only 10 per cent have revised their estimates downward. And last September's expectations have been reaffirmed by the remaining 55 per cent of our March sample.

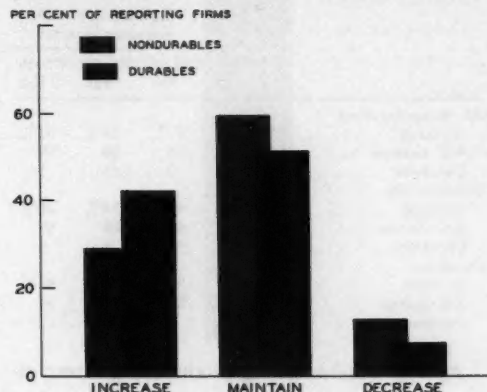
#### **Increases over 1955 are most pronounced in nondurables**

On the basis of the March re-check, manufacturers of nondurable goods expect to spend almost 25 per cent more on new plant and equipment than they spent in 1955. In durables, expectations of the current year's total outlay indicate an increase of a modest 5 per cent. A majority of lines in both major divisions of industry, however, have made very substantial increases in their 1956 spending estimates since last September. This was the case in expenditures for new construction as well as in outlays for equipment. The accompanying chart illustrates changes in the total spending plans of durable and nondurable goods firms in the past six months.

#### **... but more durable goods firms raised their September estimates**

Of the nondurable goods firms reporting in the re-check, 29 per cent raised their 1956 estimate. Original estimates were lowered by 12 per cent of the firms in this group and 59 per cent told us their plans had not changed. In durables a much larger proportion of the reporting firms—42 per cent to be exact—made upward revisions

#### **CHANGES IN 1956 SPENDING PLANS SINCE SEPTEMBER**



of their estimates. And there was a smaller proportion—only 7 per cent—indicating that earlier estimates were being scaled down. Just over half of the durable goods firms participating in the March survey indicated that their September spending plans for 1956 still held.

#### **Manufacturers are optimistic on production trends**

In our March re-check of spending plans we asked manufacturers about first-quarter production levels and prospects for the remaining three quarters of 1956. These questions had not been included in the survey made last fall. About 75 per cent of the reporting firms told us their first-quarter production was higher than in the same period last year. An even 50 per cent had experienced substantial\* increases, while the remainder of this group said output had risen from 1 to 5 per cent. Less than 10 per cent reported production declines from the first quarter of 1955 and the remainder saw no change whatever.

\*Changes in excess of 5 per cent.



# A FORECAST OF PRODUCTION TRENDS

(Per cent of firms reporting)

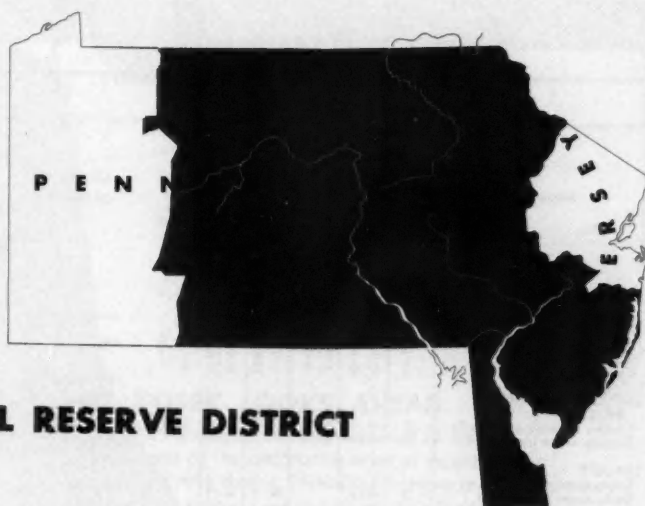
	1st qtr. 1956 compared with year ago	Comparison with previous quarter		
		2nd qtr. 1956	3rd qtr. 1956	4th qtr. 1956
All manufacturing				
Increase .....	76%	37%	24%	36%
No change .....	15	54	58	59
Decrease .....	9	9	18	5
Nondurables				
Increase .....	67%	40%	26%	26%
No change .....	29	47	68	65
Decrease .....	4	13	6	9
Durables				
Increase .....	85%	34%	21%	43%
No change .....	2	59	50	54
Decrease .....	13	7	29	3

Among durable goods producers, the proportion reporting a higher level of output in the first three months this year than last was much greater than in nondurables lines—85 per cent, against 67 per cent. And a far greater proportion of those in heavy industry lines reported substantial first-quarter increases than was the case among manufacturers of lighter products.

These percentages were about 70 per cent for durables, compared with less than 30 per cent for nondurables. There were few reports of first-quarter declines in excess of 5 per cent and all of these were from firms producing durable goods.

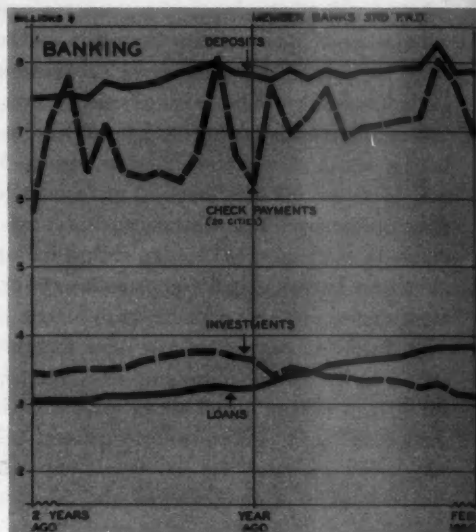
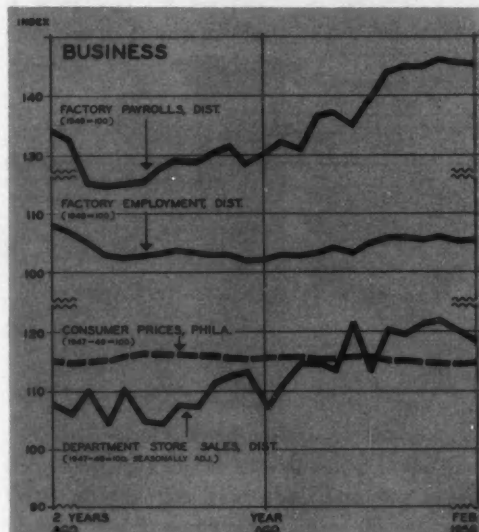
Forecasts of production trends in the second and succeeding quarters of 1956 indicated that a significant proportion of the reporting firms expected further gains. The proportion of manufacturers anticipating a higher rate of activity in the second quarter than in the initial three months of 1956 was better than one-third. Just about the same proportion looked for a higher rate of activity in the fourth quarter than in the third quarter. However, for many producers, plant-wide shutdowns for vacations during the month of July have become a traditional procedure. Consequently, fewer firms expected increases in the third quarter. With the exception of that quarter, the percentage of firms forecasting production declines from one period to the next was relatively insignificant.





**THIRD FEDERAL RESERVE DISTRICT**

# FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	February 1956 from		2 mos. 1956 from	February 1956 from		2 mos. 1956 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
<b>OUTPUT</b>						
Manufacturing production...	0	+5	+6	+1	+7	+8
Construction contracts*	0	+7	+9	+8	+18	+17
Coal mining...	-7	+2	+8	-2	+11	+14
<b>EMPLOYMENT AND INCOME</b>						
Factory employment (Total)...	0	+3	+3	0	+4	+5
Factory wage income...	0	+12	+12			
<b>TRADE**</b>						
Department store sales...	-1	+9	+9	-5	+4	+6
Department store stocks...	-1	+12		+1	+11	
<b>BANKING</b>						
(All member banks)						
Deposits...	0	+1	+1	-1	+1	+1
Loans...	0	+18	+18	+1	+17	+17
Investments...	-1	-14	-14	-2	-11	-11
U.S. Govt. securities...	-2	-14	-14	-3	-13	-13
Other...	+1	-14	-15	+1	-3	-3
Check payments...	-9†	+11†	+14†	-13	+8	+12
<b>PRICES</b>						
Wholesale...				0	+2	+2
Consumer...	0†	-1†	-1†	0	0	0

\*Based on 3-month moving averages.  
\*\*Adjusted for seasonal variation.

†20 Cities  
‡Philadelphia

LOCAL CHANGES	Factory*				Department Store				Check Payments	
	Employ- ment		Payrolls		Sales		Stocks			
	Per cent change February 1956 from		Per cent change February 1956 from		Per cent change February 1956 from		Per cent change February 1956 from		Per cent change February 1956 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	+1	+ 8	-1	+23	.....	.....	.....	.....	-10	+20
Harrisburg...	0	+11	-5	+24	.....	.....	.....	.....	-16	+15
Lancaster...	0	+ 6	+2	+19	- 1	+18	+19	+ 9	- 4	+15
Philadelphia...	0	0	0	+ 8	+ 3	+10	+ 8	+14	- 8	+11
Reading.....	0	+ 4	+1	+17	-10	+ 6	+16	+13	-14	+15
Scranton.....	+2	+ 2	+7	+11	+ 4	+ 5	+16	+ 4	-14	+ 8
Trenton.....	0	+ 4	+3	+ 9	-12	- 1	+ 9	-10	-17	-14
Wilkes-Barre...	-3	+ 2	-2	+ 7	- 2	+ 2	+ 8	+ 3	-14	+ 5
Wilmington...	-2	+ 9	-2	+13	+10	+34	+ 8	+31	-17	+17
York.....	+1	+ 6	+4	+14	-14	+12	+ 3	+ 9	- 5	+24

\*Not restricted to corporate limits of cities but covers areas of one or more counties.

